



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m. July 25, 2006. The following members were present:

Jody B. Olson
J. Kirk Sullivan
Clifford T. Hayes
Pamela I. Ahrens

Trustee Jeff Cilek was absent and excused. Executive Director Alan H. Winkle, Deputy Director Don Drum, Chief Investment Officer Robert Maynard, Investment Officer Richelle Sugiyama, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe and Administrative Assistant Rose Marie Sawicki were also in attendance. The electronic projection of materials and documents discussed in the meeting was handled by Betsy Griffith. Other persons attending portions of the meeting were:

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|--------------------|-----------------------------------|
| Kevin Jones | DBF |
| Dennis Fitzpatrick | DBF |
| Drew Black | DBF |
| Jim Shakelford | IEA |
| Lucinda Smith | Mellon |
| John McCarrick | Mellon |
| Dave Marconi | ACS |
| Peter McDonald | ACS |
| Todd Hebert | ACS |
| Charlie Brown | Retired Educator's Assn. of Idaho |
| Larry Johnson | EFIB |
| Chris Halverson | EFIB |

Rod MacKinnon
Bill Palumbo
Mike Barcelo
Rafael Stone
Paul Yett
Doug Bates
Brian Hill
Diane Berg

Mountain Pacific Investment Advisors
Mountain Pacific Investment Advisors
Idaho Trust
Foster Pepper
Hamilton Lane Advisors
Clearwater
Clearwater
PERSI

MINUTES

Approval of the Minutes: By motion duly made by Trustee Hayes and seconded by Trustee Ahrens, the Board unanimously approved the minutes of the May 23, 2006 meeting.

PORTFOLIO

Monthly Portfolio Update: In his report and presentation, Mr. Maynard said the new fiscal year began with a replay of the market nervousness that characterized much of the final quarter of the last fiscal year. Concerns about the possibility of continued Fed rate increase, economic slowdowns, and rising energy prices compounded with the outbreak of violence in the Middle East all combined to see a major market equity drop in the first few weeks of the fiscal year. International and small cap equities have been particularly hard-hit during this period. The fund is down 1.0% for the month to date and has dropped to \$9.5 billion.

Adelante and the fixed income managers (led by Barings Fixed) are the leading performers in absolute return. Mondrian, Mountain Pacific, and Brandes are the leading performers against benchmark for the short period of this fiscal year-to-date. Rowe Price, Peregrine. Bridgewater and Zesiger are struggling out of the gate. The first few weeks also have seen PERSI marginally ahead of the strategic benchmark by 13 basis points. Given the volatility of the markets, however, the first few weeks provide scant insight into portfolio trends and perceptions of Fed actions and the progress of the Middle East conflict (and perceptions about longer term energy market trends) will drive the markets over the next few weeks.

Mr. Maynard discussed the June 30, 2006 fiscal year-end report in detail. The year closed with a positive 12.2% return even though the last month was very volatile. At the end of the fiscal year we rebalanced the portfolio and now are close to our asset allocation benchmark. We are watching Rowe Price closely.

Chairman Olson asked about contribution rates; Mr. Winkle said the matrix will be discussed at the September Board meeting when we have the preliminary valuation numbers.

Hamilton Lane Quarterly Report: Paul Yett reviewed the private equity performance through December 31, 2005. Mr. Yett indicated that the one-year performance, reflects the strong appreciation of the portfolio as well as significant distribution of proceeds. The portfolio has outperformed the S&P 500 over both the one-and five-year time periods.

Chairman Olson asked about opportunities in China. Hamilton Lane continues to look for opportunities there and India.

Investment Manager Comments: Chairman Olson invited managers who were present to comment on the markets and the economy. Even with oil and gas price increases, the economy has been holding up pretty well. The good run in real estate and the housing market may be coming to an end on the coasts. Stocks are reasonably valued and the market is slowing. Larry Johnson introduced the Endowment Fund Investment Board new investment officer, Chris Halverson. Dennis Fitzpatrick noted that the US economy dominates the world, impacting all other nations. Mr. Winkle introduced Randy Tilley our new DFM analyst and Julie Swanson our new LSO Budget and Policy Analyst.

EXECUTIVE DIRECTOR

Appeal of Director's Decision: Mr. Winkle had provided background information in advance to the Trustees regarding the appeal of Richard Nelson. Mr. Winkle said Idaho Code §59-1351(6) outlines the requirement for a member to be able to change their selection of a retirement option. The selection of the retirement option is an irrevocable election with only two very specific exceptions. Any change to this election process would involve legislation. By motion duly made by Trustee Hayes and seconded by Trustee Sullivan, the Board unanimously upheld the decision of the Executive Director to not permit Mr. Nelson to change his designation of his contingent annuitant.

Executive Director's Status Update: Mr. Winkle reviewed his status report memorandum dated June 19, 2006. The Business Process Re-Engineering Project is proceeding as anticipated except for a workflow issue raised recently. Covansys has changed their name to SABER. Mr. Drum's report will provide details on this project.

Copies of the final memorandum from the Attorney General's office regarding indemnification were previously provided to the Trustees. PERSI Staff is exploring the types of insurance products that might be available to the Board to insure against risks not covered by the Tort Claims Act, together with the possibility of self-insuring.

Trustee Kirk Sullivan has been reappointed to the Board by Governor Risch. His official term will be July 1, 2006 through June 30, 2011 and will be confirmed by the Legislature.

Four new Charter Schools are being established and are mandated into PERSI by law. Garden City Community School, the Advanced Regional Technical Education Center (ARTEC) Charter School, the Academy at Roosevelt Center and Taylor's Crossing Public Charter School have all been approved by the Department of Education.

The Actuarial Audit is in progress by Gabriel, Roeder Smith & Company (GRS) and is on schedule. It will be somewhat more comprehensive in scope than in previous years with no increase in the bid price.

We are updating our Strategic Plan to DFM as required each year. We will review the plan at the August Board meeting.

DEPUTY DIRECTOR'S STATUS UPDATE: Mr. Drum discussed the operational issues outlined in his July 19, 2006 memorandum to the Board. The Business Process Re-Engineering Project is progressing and moving into the workflow phase. We expect workflow final documentation in September. Once firm delivery dates are established, we will then train employees and implement the program.

The phone system is being updated and with the new Voice over IP system our Answer Center will handle calls seamlessly between our Boise, Pocatello and Coeur d'Alene offices. The project should be completed by the spring of 2007.

Forms are being revised and will be available for members to complete and submit through the PERSI secure internet site. Employee training continues in the new processes and a training roundtable group is working on the overall plan for needed staff and employer training.

Member education programs are being revised and updated to meet the needs of our members in an efficient manner.

After surveying our employers, we are exploring the benefits of hard copy handbooks vs. electronic publishing. Our goal is to be fiscally responsible without sacrificing customer service. Mr. Drum said we plan to print a smaller quantity of hard copy handbooks and mail one to new employees with a welcome letter. We will post the handbook on the PERSI website, notifying employers when changes are made. A "Benefits at a Glance" brochure will be offered to employers to use during orientation.

Trustee Ahrens commended PERSI staff on their customer service saying several personnel in her department are retiring and have only wonderful comments about PERSI staff.

LEGAL

New Law Defining Lobbyists: Deputy Attorney General Goodsell had previously provided a detailed memorandum dated July 19, 2006 to the Board. He reviewed this with the Trustees, saying there are still a number of questions that are unanswered. The new law places no obligation on staff; the obligation is on the vendor or lobbyist.

FISCAL

Fiscal Update/ Travel, Administrative and Portfolio Reports: Financial Officer James Monroe reported that the annual audit is underway. Mark Stevens is the Deloitte partner in charge of the audit out of the Salt Lake City office. Field work is scheduled for late August. Chairman Olson is pleased with the work of Deloitte and Touché and their rates. Mr. Monroe reviewed the Travel, Administrative and Portfolio budget reports. Chairman Olson thanked Trustee Hayes for taking time to attend the National Association of State Retirement Administrator's (NASRA) conference.

FY 2008 Budget Proposal Discussion: Mr. Monroe had previously provided details on the proposed fy2008 budget for administration and portfolio. The preliminary annual budget request will be submitted to the Division of Financial Management for their approval. The plan includes compensation plan improvements to get staff to market salary rates and to handle expected increases in workload. Fiscal impact to the total PERSI budget is approximately 3%.

DC PLAN

Recordkeeper RFP/Contract Update: DC Plan Manager Diane Berg said three bids were received for the Choice Plan record keeper. The review team recommended selection of ACS, the current provider for recordkeeping services. Ms. Berg introduced the ACS team, Dave Marconi, Peter McDonald, and Todd Hebert. Mr. Marconi presented the Choice Plan results for the fiscal year ending 6/30/06. He said 14% of those eligible are contributing to the 401(k) through payroll deduction this year, up from 12% last year. 51,603 participants used the website to access their account in fiscal year 2006. The Voice Response Unit handled 5,382 calls and Customer Service Representatives handled 4,786 calls from members about their accounts. A new user friendly website is up and running and was demonstrated to the Board. In response to a question from Chairman Olson, they discussed the recent SEC investigation of stock option backdating and produced a letter

from their legal counsel. The Board directed staff to continue to monitor this issue.

FUTURE MEETINGS:

August 22, 2006, 8:30 a.m., Boise – PERSI office
September 26, 2006, 8:30 a.m., Boise – PERSI office
October 31, 2006 8:30 a.m., Boise – PERSI office
December 5, 2006, 8:30 a.m., Boise – PERSI office

Adjournment: At 10:45 a.m., there being no further business to come before the Board, the meeting was adjourned.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director